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TAGS: ECON EFIN EFTA ETRD PM PREL

SUBJECT: ONCE AGAIN, GOP SET TO LAUNCH TIEA NEGOTIATIONS
WITH OECD NATIONS

REF: PANAMA 535

SUMMARY

¶1. (SBU) GOP Ministers informed the Ambassadors to the Organization for Economic Co-operation and Development (OECD) countries that Panama will enter Tax Information Exchange Agreement (TIEA) negotiations with a sufficient number of OECD countries to prevent Panama from being blacklisted as a tax haven. Minister Vallarino indicated a possible start of TIEA negotiations with Mexico on August 18 and a trip by Vice-President and Foreign Minister Varela to Washington on October 15 possibly to announce the start of TIEA negotiations. Prior GOP declarations to start TIEA negotiations have not been successful.

GOP WANTS TIEAs with OECD COUNTRIES

¶2. (SBU) Minister of Economy and Finance Alberto Vallarino, who is the GOP lead on tax issues, chaired the Commission to Defend International Services over the past six weeks. The Commission listened to a wide range of very strong opinions - the strongest voices were against the GOP negotiating TIEAs. Despite these anti-TIEA voices, Vallarino decided that, if Panama wants to join the "First World", it must remove the threat of the OECD tax haven blacklist. Therefore, Vice-President and Foreign Minister Juan Carlos Varela and Minister Vallarino on August 14 informed all the Ambassadors from OECD countries that the new Martinelli government now has a policy on Tax Information Exchange Agreements (TIEAs) -- Panama will enter TIEA negotiations with a sufficient number of OECD countries to prevent Panama from being blacklisted as a tax haven.

PRIOR GOP TIEA PROMISES

¶3. (SBU) The GOP in 2002 publicly promised to enter into TIEA negotiations with OECD countries, but withdrew from negotiations because the GOP believed their competitors were not being held to the same standards. This "level playing field" argument is no longer valid, because Panama's competitors are rapidly signing TIEAs in an effort to prevent blacklisting. The Torrijos Administration in 2009 publicly

promised to enter into TIEA negotiations and the Martinelli Administration in May (publicly) and in July (privately to the Embassy) promised to enter into TIEA negotiations. The 2009 announcements were primarily an effort to encourage the passage of the U.S.-Panama Free Trade Agreement (FTA) by Congress. The FTA is now on hold and is not an immediate incentive to negotiate TIEAs.

GOP PUBLIC POSITIONING

¶14. (SBU) The stated public purpose of the GOP's TIEA policy is to strengthen the competitiveness of Panama's service sector, attract foreign direct investment, promote/defend Panama's good name, and prevent being blacklisted. GOP officials generally do not state a direct desire for a TIEA. They state they want tax treaties to eliminate double taxation and, if pushed, want TIEAs that offer economic advantages to Panama. The public messaging is designed to show the Panamanian public that the GOP will sign TIEAs because TIEAs provide tangible benefits to Panamanians and not because the GOP is being "blackmailed" by OECD countries that are protecting their tax base or by the Americans who are simply adding one more condition to FTA passage.

POSSIBLE TIMING OF GOP'S
MEXICAN AND U.S. TIEA
NEGOTIATIONS

¶15. (SBU) As previously communicated by the GOP, the GOP plans to first sign TIEAs with countries other than the United States. See reftel. Minister Vallarino will travel to Mexico today to presumably start TIEA negotiations. Vallarino will again travel to Mexico for the September 1-2 OECD Global Forum on Transparency and Exchange of Information. Foreign Minister Varela's first official visit to the United States is expected to be on October 15 and he has indicated that a possible deliverable is the start of negotiations for a United States-Panama TIEA.

STEPHENSON